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Handling Some Accounting Issues for Businesses Affected by COVID -19

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Abstract

The Covid-19 pandemic has broken out around the world, has now impacted all aspects of socio-economic life, negatively affecting global economic growth, Vietnam is no exception. This is a big shock, severely affecting Vietnamese enterprises, in almost all groups of different sizes, types and fields of activity including: Tourism, real estate, agriculture, industry, commerce, production,

service... in which, the production and business activities of enterprises are affected most clearly, this directly affects accounting activities. On that basis, the article discusses how to handle a number of accounting issues for businesses affected by the Covid epidemic, helping these businesses overcome the crisis period.

Keywords: Business, Accounting, Expenses

1. Introduction

In 2020, the World Bank developed a report based on the results of a survey of 10,197 businesses in 63 provinces and cities across the country to identify the impact of the COVID-19 epidemic on production and business activities and the ability to the response and resilience of businesses to this global pandemic. The report shows that up to 87.2% of businesses are affected "mostly" or "completely negatively" by the Covid-19 epidemic, with only 11% of businesses saying they are "not affected at all" and nearly 2% noted a "completely positive" or "mostly positive" impact.

The number of businesses greatly affected by the Covid -19 epidemic accounts for 87.2%. According to the 2015 Accounting Law, accounting is the collection, processing, checking, analyzing and providing economic and financial information in the form of value, artifacts and labor time. The purpose of accounting is to provide information about the financial situation and production and business processes of an enterprise to those who need to use the information for decision making when activities are if the enterprise's production and business is affected, the accounting work and accounting information will also be significantly affected. Therefore, this issue needs to be understood and resolved to help businesses have a direction to overcome the pandemic period.

2. Current status of some accounting issues arising at businesses during the Covid -19 epidemic

2.1 Accounting estimates

The Covid-19 epidemic has led to many changes, making some economic conditions uncertain. Therefore, previous accounting estimates may no longer be appropriate and reliable (e.g., provisions for doubtful receivables, estimates of useful life of fixed assets as a basis). Basis for calculating depreciation and provisions payable on warranty obligations).

2.2 Assume continuous operation

Normally, businesses prepare financial statements on the basis of the assumption of continuous operations. Accordingly, the business assumes that it will operate continuously and continue to operate in the near future. However, due to the impact of Covid-19, many businesses are uncertain about their future viability and are facing significant contraction of production activities, dissolution of business divisions or forced to cease operations for a long time. Therefore, businesses need to review whether the going concern assumption being used is still reasonable or not to prepare appropriate financial statements.

2.3 Expenses incurred during business shutdown due to social distancing

To control the epidemic, Vietnam has implemented social distancing measures. In that context, businesses will be forced to stop operating but will still incur some costs such as fixed rental fees, depreciation of fixed assets, and salaries paid to

employees during the epidemic break to retain employees. Labor or according to law, etc. The question is how the costs incurred during this period of social distancing should be classified and presented in the financial statements.

2.4 Costs incurred during the time the enterprise implements option 3 on-site

During the period of social distancing, some businesses must implement option 3 on-site to ensure production and business activities and therefore:

- Businesses incur costs such as employee accommodation costs, Covid-19 testing costs, quarantine support costs, costs of purchasing medical equipment and supplies...
- Businesses must operate at significantly lower production levels than normal.

2.5 Borrowing costs

During the period affected by Covid-19, many social distancing measures implemented have led to the construction and production process of unfinished assets being interrupted due to reasons such as workers and contractors being unable to come to work at the construction site, input materials and equipment were delayed in delivery, affecting the construction progress. In addition, cash flow difficulties and unfavorable market conditions also cause some businesses to suspend new investment projects due to the assessment that the project is reduced or no longer viable. The question is how borrowing costs during this period will be handled.

2.6 Deferred corporate income tax

The prolonged Covid-19 epidemic along with restrictive measures can increase operating costs or reduce business income, leading to a decline in profits or even operating losses and affecting profitability. Future profits of the business. One issue is whether an enterprise can record deferred tax assets related to tax losses of this year and previous years, before these losses expire according to regulations. By tax authorities or not.

2.7 Business restructuring activities

In order to overcome difficulties during Covid-19, many businesses have carried out restructuring plans at various levels such as reducing the scale of operations, changing leadership or liquidating assets. These activities may give rise to accounts payable and long-term assets held for sale.

3. Some solutions in accounting work to provide useful information for information users amid the impact of the Covid pandemic

3.1 Solution to accounting estimates

Businesses need to review and reassess all accounting estimates to ensure that at the time the business is affected by Covid-19, these accounting estimates are being recorded appropriately to the best of their ability. Based on reviewing and re-evaluating the suitability of the following factors:

- Estimation method: Need to ensure the calculation model has been adjusted promptly to reflect changes in the business environment.
- Assumptions used in accounting estimates: Need to be consistent across items on the financial statements. For example, the assumptions used in assessing impairment

losses must be consistent with the assumptions used in assessing liquidity risk, expected credit loss provisions, and asset utilization. Deferred tax.

- Historical data used: May have to be adjusted to reflect additional disadvantages arising in the business environment.

At the same time, businesses need to fully prepare calculations and documents as a basis for their accounting judgments and estimates.

* Based on proposed solutions: VAS 29 and IAS 08.

3.2 Solution to the going concern assumption

With the current Covid-19 epidemic situation, many businesses are at risk of dissolution or having to stop operating in some areas, leading to financial statements having to be prepared on an alternative basis (for example, liquidation price basis). Or actual realizable price). The impacts from Covid-19 need to be assessed through indicators of revenue, fixed costs, variable costs, cash flow issues, solvency, and access to financial means. Main potential.

If it is uncertain about its ability to continue operating, the enterprise should disclose that information as specifically as possible. If the going concern assumption no longer applies, the entity must reassess the value of its assets and liabilities and prepare its financial statements on an alternative basis. At the same time, the accountant needs to clearly state this fact, along with the reason why the business is not considered a going concern and explain the basis used to prepare that financial statement.

* Based on proposed solutions: VAS 21 and IAS 01.

3.3 Solution for costs incurred during business shutdown due to social distancing

Currently, there are no more specific guidance documents from the Ministry of Finance for sales costs and business management costs. However, businesses can consider presenting sales and administrative expenses during the temporary shutdown due to Covid-19 according to Official Letter No. 10385/BTC-QLKT and Circular No. 200/2014/TT- BTC as follows:

- When a business is affected by Covid-19 and stops operating for a certain period of time but still has to pay or incur essential expenses such as employee salaries, electricity and water costs, and office rent. Rooms, depreciation expenses, etc., when incurred, expenses related to direct production departments are considered losses due to cessation of operations and are recorded in Account 811 - other expenses.
- Expenses incurred due to remote working such as staff costs, depreciation of used equipment, software wear and tear and minimum maintenance costs such as security services, electricity and water... will be recorded Receive according to function (sales expenses or business management expenses) as original.
- Additional costs due to Covid -19 such as medical quarantine costs, environmental sanitation costs to prevent the spread of disease, and additional allowances paid to employees participating in epidemic prevention can be presented separately. Especially if important.

* Based on proposed solution: Official Dispatch No. 10385/BTC-QLKT issued on September 10, 2021 of the Ministry of Finance and Circular No. 200/2014/TT-BTC.

3.4 Solution for costs incurred while the enterprise implements option 3 on-site

During this period, businesses need to base on the actual production capacity of the factory to record corresponding production costs, specifically:

- For costs related to on-site epidemic prevention such as purchasing masks, protective clothing, antiseptics, periodic testing costs... that arise unplanned, businesses need to record these expenses. This cost is included in the cost price. In the following years, the Board of Directors needs to evaluate whether the enterprise accepts these costs to become part of the long-term production and labor process or are just unusual expenses incurred for the purpose of epidemic prevention. If a business accepts these costs as part of a new production process and is expected to maintain them in the long-term future, these costs can be recorded in the product's cost. If the enterprise determines that these costs are only necessary for production and business activities under unusual conditions, they are considered operating losses and recorded in cost price (excluding these costs). When calculating the product's price) or sales costs, business management costs corresponding to each function.
- The level of actual products produced is higher than normal capacity, fixed production costs will be allocated to each unit of product according to actual costs incurred, or in other words, fixed costs should be recorded. Into the price of the product.
- The actual level of products produced is lower than the factory's normal capacity, so the fixed production costs are only allocated to each product unit according to the normal capacity level, and the unallocated costs should be recorded. Receive cost of goods sold during the period.
- Businesses need to check whether assets are impaired or not. If any, the loss should be recorded in the operating results for the period.

* Based on proposed solutions: VAS and IFRS.

3.5 Solution to borrowing costs

To assess whether borrowing costs are capitalized during a temporary construction suspension, businesses will have to review project performance and use judgment to determine:

- Is the implementation of projects really interrupted? For example, in some cases, contractors and workers may continue to work on-site on a three-on-site basis. In addition, there are situations where even though workers cannot perform construction on site, other important work can still be carried out such as test runs, quality checks, acceptance and preparation of documents and permits. Necessary.
- Is the reason for the disruption necessary or due to an unusual event? In case the temporary suspension of construction coincides with the necessary period of time due to technical reasons such as waiting for concrete to dry, roads waiting for subsidence or bridge construction temporarily suspended due to the natural cyclical flood season, the cost Borrowing continues to be capitalized. However, if the construction investment process or production of unfinished assets is interrupted solely due to social distancing measures, the borrowing costs are recorded as production and business expenses during the period.

* Based on proposed solutions: VAS 16 and IAS 23.

3.6 Solution for deferred corporate income tax

When calculating deferred tax assets, businesses need to consider and evaluate the possibility of having future income taxable profits to use deferred tax assets, especially in the context of The Covid-19 pandemic seriously affects production and business activities as well as the ability to generate profits in the future. Enterprises also make similar assessments according to IAS 12 - Corporate income tax standards when preparing IFRS financial statements. Deferred corporate income tax assets.

* Based on proposed solution: Circular No. 200/2014/TT – BTC.

3.7 Solutions for business restructuring activities

Enterprises will record a provision payable for restructuring when the enterprise has a detailed and formal plan for restructuring and has announced or has begun restructuring work. These will be applied similarly between VAS 18 and IAS 37 regarding provisions for liabilities, contingent assets and liabilities. Particularly for enterprises preparing financial statements in compliance with IFRS, for liquidated assets that are long-term assets ready for sale, the Board of Directors needs to consider the following 5 conditions:

- The Board of Directors wishes to implement the asset liquidation plan.
- The property is in a state where it can be sold quickly.
- The business has started looking for buyers for the assets.
- Assets are offered for sale at a selling price consistent with the fair value of the asset.
- The activities required to implement the liquidation plan indicate a high likelihood that the liquidation plan will not be changed or discontinued. If the asset meets these conditions, the asset is classified as a non-current asset held for sale under IFRS 5 and is recorded at the lower of carrying value and fair value less costs. Liquidation.

* Based on proposed solutions: VAS 18 and IAS 37.

4. Conclusion

The Covid-19 pandemic is increasing in both scale and duration, affecting many business activities, including accounting activities. Businesses need to continue to monitor the developments of the Covid-19 epidemic and determine the impact on their financial situation and ability to operate effectively, thereby making measures and decisions to Adjust accounting activities accordingly.

To adapt to the current situation, accountants must actively improve their professional expertise, regularly update regulations on accounting, labor, insurance, investment and financial support policies. Government and taxes; as well as quickly adapt to new working methods, new technology, and new business models of the enterprise. At the same time, accountants need to grasp the social and business context, closely review the movement of actual cash flow at the unit; consider and consider the impact on working capital in the supply chain. In addition, accountants need to closely monitor debt obligations and contract terms to fully recover debts, promptly identify situations where contract violations may occur in order to make reasonable and effective judgments. Minimize financial risks for businesses.

In addition, businesses need to actively maintain close links with customers, employees and strategic partners such as banks and other lending partners; at the same time, proactively create many flexible scenarios to respond to the crisis caused by the epidemic and plan to maintain business activities.

5. References

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